

KINGMAN AIRPORT AUTHORITY, INC.

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2005

KINGMAN AIRPORT AUTHORITY, INC.
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2005

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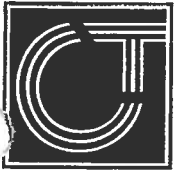
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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of the
Kingman Airport Authority, Inc.

We have audited the accompanying financial statements of the business-type activities of the Kingman Airport Authority, Inc. (Authority), as of and for the year ended June 30, 2005, which collectively comprise the Kingman Airport Authority, Inc.'s basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Kingman Airport Authority, Inc.'s management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial reports contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Kingman Airport Authority, Inc., as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 - 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. In addition, the schedule of net income presented on page 26 is not part of the basic financial statements, but is presented as supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 17, 2005 on our consideration of the Kingman Airport Authority, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Cronstrom, Trbovich & Osuch, P.C.

Cronstrom, Trbovich & Osuch, P.C.

November 17, 2005

Management's Discussion and Analysis

We (the Kingman Airport Authority, Inc. (Authority)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2005. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation.

Financial Highlights

- ◆ The assets of the Kingman Airport Authority, Inc. exceeded its liabilities at the close of the most recent fiscal year by \$10,064,507 (net assets). Total net assets include \$9,430,200 in capital assets net of related debt and \$634,307 in unrestricted assets.
- ◆ The Kingman Airport Authority, Inc. operations produced an operating loss of \$839,635 for the fiscal year. Although much of this loss can be attributable to non-cash depreciation expense on assets that were contributed by the federal government or acquired with the aid of grants, the Authority still relies on revenue from the building space and hangars that are continually leased to other parties.
- ◆ During the year total net assets increased by \$855,490.
- ◆ Lease revenues increased 16% to \$547,222.

Overview of the Financial Statements

This discussion and analysis serves to introduce the Authority's basic financial statements. The Authority's basic financial statements have two components: 1) fund financial statements, and 2) notes to the basic financial statements. Separate government-wide financial statements are not presented since the Authority has only one fund.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Kingman Airport Authority, Inc., like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Unlike most other governments, which have multiple funds, all of the Authority's activities are business-type activities and are accounted for in a single proprietary fund.

Proprietary funds. The Kingman Airport Authority, Inc. maintains its accounting records in a single enterprise fund. An *Enterprise fund* is a type of proprietary fund used to report *business-type activities*.

The basic proprietary fund financial statements can be found on pages 10 - 13 of this report.

The *statement of net assets* presents information on the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information on how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Notes to the basic financial statements. The notes to the basic financial statements (pages 15 - 23) provide additional information that is essential to a full understanding of the data provided in the fund financial statements and should be read with the financial statements.

Financial Analysis

Net assets may serve as useful indicators of a government's financial position. At the end of the fiscal year, the Kingman Airport Authority, Inc.'s assets exceeded liabilities by \$10,064,507.

Airports are capital-intensive enterprises. Over 90% of the Authority's net assets are invested in capital assets, less any related debt used to acquire those assets that is still outstanding. The Authority uses these assets to provide aviation access and services to the flying public and the surrounding community; consequently, these assets are not available for future spending. Although, the Authority's investment in capital assets is reported net of related debt, the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Kingman Airport Authority, Inc.

Net Assets

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Current and other assets	\$ 642,426	\$ 785,129	(18.2)%
Capital assets, net of accumulated depreciation	<u>10,140,272</u>	<u>9,179,835</u>	<u>10.5</u>
Total assets	<u>10,782,698</u>	<u>9,964,964</u>	<u>8.2</u>
Long-term liabilities	657,089	698,453	(5.9)
Other liabilities	<u>61,102</u>	<u>114,988</u>	<u>(46.9)</u>
Total liabilities	<u>718,191</u>	<u>813,441</u>	<u>(11.7)</u>
Net assets:			
Invested in capital assets, net of related debt	9,430,200	8,430,713	11.9
Unrestricted	<u>634,307</u>	<u>778,304</u>	<u>(18.5)</u>
Total net assets	<u>\$ 10,064,507</u>	<u>\$ 9,209,017</u>	<u>9.3 %</u>

Net assets increased by \$855,490, or 9% from the previous fiscal year-end. This was primarily due to the increase in capital assets acquired through federal and state programs. Net capital assets increased in the fiscal year 2004-05 by \$960,437.

Business-type activities

All of the Authority's activities are classified as business-type activities. At the end of the current fiscal year, the Kingman Airport Authority, Inc. is able to report a positive balance in the Authority's net assets.

Kingman Airport Authority, Inc. Changes in Net Assets Fiscal Years Ended June 30, 2005 and 2004

	2005	2004	% Change
Revenues:			
Leases	\$ 547,222	\$ 470,506	16.3 %
Capital grants and contributions	1,535,703	1,022,426	50.2
Other	<u>235,401</u>	<u>188,777</u>	<u>24.7</u>
Total revenues	<u>2,318,326</u>	<u>1,681,709</u>	<u>37.9</u>
Expenses:			
Depreciation	579,226	491,946	17.7
Other operating expenses	848,074	736,186	15.2
Non-operating expenses	<u>35,536</u>	<u>42,542</u>	<u>83.5</u>
Total expenses	<u>1,462,836</u>	<u>1,270,674</u>	<u>15.1</u>
Change in net assets	855,490	411,035	108.1
Total net assets, beginning of year	<u>9,209,017</u>	<u>8,797,982</u>	<u>4.7</u>
Total net assets, end of year	<u>\$ 10,064,507</u>	<u>\$ 9,209,017</u>	<u>9.3 %</u>

Lease revenues increased by \$76,716 primarily due to regularly scheduled rate increases and new leases entered into by the Authority.

Capital grants and contributions increased by \$513,277 mainly due to the increased funding from the Airport Improvement Grant for the Authority's capital improvements.

Other revenues did not change significantly during the fiscal year.

The Authority's expenses increased by 15%. The more significant factors contributing to the increase are the increase in depreciation due to a significant increase in capital improvements and related operating expenses of the capital improvements.

Budgetary Highlights

The Authority prepares a budget annually which is submitted to the Board of Directors for approval during the spring of each year. The budget is used as a management tool; it is not a legally binding document. The budget and annual comparisons of actual to budget is prepared on the budgetary basis of accounting. There were no significant changes to the budget during the year. Although the budget is not legally adopted, it is an important management tool used throughout the fiscal year. See page 12 for a presentation of the budget to actual comparison for the fiscal year.

Capital Assets and Debt Administration

The Kingman Airport Authority, Inc.'s capital assets as of June 30, 2005 amount to \$10,140,272 (net of accumulated depreciation), an increase of 10%. The capital assets include runways and taxiways; buildings; improvements; machinery and equipment. A large majority of these assets were contributed to the airport directly or were purchased with the aid of federal and state grants.

Major capital asset events during the current fiscal year included the following:

- ◆ The completion of the ramp improvement project.
- ◆ Upgrades to security of the airfield.

The following table provides a breakdown of the capital assets of the Kingman Airport Authority, Inc. at June 30, 2005 and 2004.

Capital Assets at June 30, 2005 and 2004
(Net of depreciation)

	2005	2004
Land improvements	\$ 8,743,003	\$ 7,877,510
Buildings and improvements	1,064,676	1,117,988
Furniture, machinery and equipment	332,593	126,739
Construction in progress	<u>-</u>	<u>57,598</u>
	<u>\$10,140,272</u>	<u>\$ 9,179,835</u>

Long-term Debt

At the end of the current fiscal year, the Kingman Airport Authority, Inc. had total long-term obligations outstanding of \$710,072. This debt consists of two separate bank notes with payments made monthly. The Authority reduced its debt by \$39,050 by making regularly scheduled principal and interest payments.

The following schedule shows the outstanding debt of the Kingman Airport Authority, Inc. (both current and long-term) as of June 30, 2005 and 2004. Further detail on the Kingman Airport Authority, Inc.'s outstanding debt may be found in Note 3.C. on page 20 - 21.

Outstanding Debt at June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Notes payable	\$ <u>710,072</u>	\$ <u>749,122</u>

Economic Factors and Next Year's Budgets and Rates

The Kingman area economy is currently driven by equity investment and migration from California. New construction and residential home sales are also attracting the interests of commercial developers which in turn spurs interest in manufacturers supplying the construction industry.

This is typical in the Southwest portion of the country in general and Kingman's location makes it logistically suited for a manufacturer to service California, Arizona, Nevada, Utah and New Mexico overnight. Kingman is attracting interest from East Coast and Midwest companies looking to expand operations to keep up with the growth in the Southwest. Proceeds from land sales within the industrial park as a result of this growth will be utilized to construct basic infrastructure and capital improvement projects for the airfield and industrial park.

The Authority's operations will continue to be funded through lease revenues and user fees generated along the flight line and within the industrial park. All new leases include an automatic 3% annual increase in base rate effective July 1, of each year. As older leases expire, they will be replaced with language incorporating the automatic 3% annual increase as well.

Financial contact

This financial report is designed to provide a general overview of the Kingman Airport Authority, Inc.'s finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

Kingman Airport Authority, Inc.
Accounting Department
7000 Flightline Drive
Kingman, AZ 86401
928-757-2134

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Basic Financial Statements

KINGMAN AIRPORT AUTHORITY, INC.
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Business-type Activities - <u>Enterprise Fund</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 393,506
Receivables, net	
Accounts receivable	131,835
Deposits	<u>918</u>
Total current assets	<u>526,259</u>
Noncurrent assets	
Intangible (net)	116,167
Capital assets	
Depreciable (net)	<u>10,140,272</u>
Total noncurrent assets	<u>10,256,439</u>
Total assets	<u>10,782,698</u>
Liabilities	
Current liabilities	
Accrued wages and benefits	8,119
Notes payable - current	<u>52,983</u>
Total current liabilities	<u>61,102</u>
Noncurrent liabilities	
Notes payable	<u>657,089</u>
Total liabilities	<u>718,191</u>
Net assets	
Invested in capital assets, net of related debt	9,430,200
Unrestricted	<u>634,307</u>
Total net assets	<u>\$ 10,064,507</u>

The notes to the basic financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-type Activities - Enterprise Fund
Operating revenues	
Leases	\$ 547,222
Intergovernmental	<u>40,443</u>
Total operating revenues	<u>587,665</u>
Operating expenses	
Personnel	274,402
Payroll taxes and benefits	92,082
Office expense	17,857
Professional services	36,708
Maintenance and repairs	22,924
Motor pool	19,016
Operational expense	380,969
Depreciation	579,226
Amortization	<u>4,116</u>
Total operating expenses	<u>1,427,300</u>
Operating loss	<u>(839,635)</u>
Nonoperating revenues (expenses)	
Contributions and donations	93,918
Interest revenue	7,267
Application fees	23,000
Miscellaneous revenues	31,383
Interest expense	(35,536)
Land sales	<u>39,390</u>
Total nonoperating revenues (expenses)	<u>159,422</u>
Income (loss) before contributions and transfers	(680,213)
Capital contributions	<u>1,535,703</u>
Change in net assets	855,490
Total net assets, beginning of year	<u>9,209,017</u>
Total net assets, end of year	<u>\$ 10,064,507</u>

The notes to the basic financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL - (BUDGETARY BASIS)
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Leases	\$ 482,952	\$ 547,222	\$ 64,270
Intergovernmental	60,000	40,443	(19,557)
Contributions and donations	84,000	93,918	9,918
Interest revenue	8,000	7,267	(733)
Application fees	6,800	23,000	16,200
Land sales	1,500,000	39,390	(1,460,610)
Capital contributions	-	1,535,703	1,535,703
Miscellaneous revenues	1,000	31,383	30,383
Total operating revenues	<u>2,142,752</u>	<u>2,318,326</u>	<u>175,574</u>
Operating expenses			
Personnel	315,862	274,402	41,460
Payroll taxes and benefits	120,242	92,082	28,160
Office expense	25,300	17,857	7,443
Professional services	74,800	36,708	38,092
Maintenance and repairs	55,500	22,924	32,576
Motor pool	17,000	19,016	(2,016)
Operational expense	317,600	380,969	(63,369)
Debt service	85,952	74,586	11,366
Capital outlay	1,596,645	1,609,151	(12,506)
Total operating expenses	<u>2,608,901</u>	<u>2,527,695</u>	<u>81,206</u>
Excess (deficiency) of revenues over expenditures	\$ (466,149)	\$ (209,369)	\$ 256,780

The notes to the basic financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-type Activities - Enterprise Fund
Cash flows from operating activities	
Receipts from customers	\$ 527,745
Payments to suppliers	(569,556)
Payments to employees	(273,108)
Contributions and donations	93,918
Application fees	23,000
Miscellaneous revenues	31,383
Net cash flows used for operating activities	<u>(166,618)</u>
Cash flows from noncapital financing activities	
Cash flows from capital and financing activities	
Capital grants and contributions	1,551,130
Purchases of capital assets and intangibles	(1,609,151)
Principal paid on notes payable	(39,050)
Interest paid on notes payable	(35,536)
Proceeds from sale of land	39,390
Net cash flows used for capital and financing activities	<u>(93,217)</u>
Cash flows from investing activities	
Interest and dividends	<u>7,267</u>
Net cash flows from investing activities	<u>7,267</u>
Net change in cash and cash equivalents	(252,568)
Cash and cash equivalents, beginning of year	<u>646,074</u>
Cash and cash equivalents, end of year	\$ <u><u>393,506</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (839,635)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	583,342
Contributions and donations	93,918
Application fees	23,000
Miscellaneous revenues	31,383
Change in assets/liabilities:	
Accounts receivable	(59,920)
Accrued wages and benefits	<u>1,294</u>
Net cash used by operating activities	\$ <u><u>(166,618)</u></u>

The notes to the basic financial statements are an integral part of this statement.

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KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Kingman Airport Authority, Inc. (Authority) have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Authority's more significant accounting policies follows.

A. Reporting Entity

The Kingman Airport Authority, Inc. (Authority) was incorporated in the State of Arizona in July 1992, as a nonprofit corporation. The Authority operates, maintains, and manages the Kingman Airfield and Industrial Park, collectively known as the Airport for the City of Kingman, Arizona. The Authority is administered by the board of directors who are elected by the membership of the Authority.

The Kingman Airport Authority, Inc. was formed by transferring the assets and liabilities of the Mohave County Airport Authority, Inc., which related to the Kingman Airfield and Industrial Park, to the Kingman Airport Authority, Inc. The Authority leases the real property at no cost from the City of Kingman, Arizona under a long term lease. Primary sources of funding for the authority are rents from subleasing real property, proceeds from the sale of real property located in the Kingman Airport Industrial Park, and grants from other governmental units. Functions financed by the Authority include management, maintenance, and development of the Kingman Airfield and the Kingman Airport Industrial Park. The Authority is considered to be a political subdivision of the State of Arizona, Mohave County and the City of Kingman, Arizona with the responsibility of carrying out the function of airport management.

In evaluating how to define the Authority, for financial reporting purposes, management has identified no potential component units. The decision to include a potential component unit in the reporting entity would have been made by applying criteria set forth in U.S. generally accepted accounting principles. Generally, component units are legally separate organizations for which the elected officials of the primary government (i.e., the Authority) are financially accountable. The primary government is financially accountable for a potential component unit if it: appoints a voting majority of the potential component unit's governing body; and, either is able to impose its will on the potential component unit or there is a possibility of the potential component unit to provide specific financial benefits to, or impose specific financial burdens on the primary government.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

In addition, a primary government may be financially accountable for a potential component unit even though the potential component unit may have a separately elected governing board, a board appointed by another government, or a jointly appointed board if the potential component unit is fiscally dependent on the primary government (e.g., the primary government must approve the potential component unit's budget, tax rates, etc.). Because no potential component units were identified in defining the Authority's reporting entity, none have been included in the Authority's reporting entity.

B. Government-wide and fund financial statements

Government-wide financial statements are not presented, as the Authority only engages in business-type activities. The Authority only has one fund, an enterprise fund. Accordingly, the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows report information for that single enterprise fund only.

C. Measurement focus, basis of accounting, and financial statement presentation

The statement of net assets and statement of revenues, expenses and changes in fund net assets are reported using the *economic resource measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Such revenue is subject to review by the funding agency, which may result in disallowance in subsequent periods.

The Authority reports the following proprietary fund:

The *Enterprise Fund* is used to account for operations (a) that are financed and operated in manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

State statutes authorize the Authority to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, authorities or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

All trade receivables are shown net of an allowance for uncollectible receivables. The Authority annually reviews the balance in the reserve account during the budget process to determine if, based on past history, the account is adequate to cover current trade receivables. If judged to be inadequate, an additional amount is budgeted and recorded over the course of the year. Due to the determination that all accounts are deemed collectible, there was no allowance for uncollectibles at June 30, 2005. Receivables from governments are assumed to be entirely collectible and are not included in this analysis.

3. Capital assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest capitalized was calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Land improvements	10-30 years
Buildings and improvements	7-30 years
Furniture, machinery and equipment	3-8 years

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The Authority adopts an annual nonappropriated budget as a management control device. The budget is prepared on the modified accrual basis, which is a different basis of accounting than is used to present the financial statements. (See Note 4.C. for reconciliation).

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2005 consist of the following:

Deposits	
Cash on hand	\$ 175
Cash in bank	34,939
Investments	
Money Market Mutual Fund	53,106
Certificates of deposit	<u>305,286</u>
Total deposits and investments	<u>393,506</u>
Total cash and equivalents	<u>\$ 393,506</u>

Deposits - The Authority's deposits at June 30, 2005, were entirely covered by federal depository insurance or by collateral held by the Authority's custodial bank in the Authority's name.

Investments - The money market mutual fund is not subject to custodial credit risk. All other investments of the Authority are uninsured and unregistered with the securities held by the counterparty's trust department or agent in the Authority's name.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

2. Capital assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Completed Construction</u>	<u>Ending Balances</u>
Business-type Activities:					
Capital assets not being depreciated:					
Construction in Progress	\$ <u>57,598</u>	\$ <u>1,026,745</u>	\$ <u>-</u>	\$ <u>(1,084,343)</u>	\$ <u>-</u>
Total capital assets, not being depreciated	<u>57,598</u>	<u>1,026,745</u>	<u>-</u>	<u>(1,084,343)</u>	<u>-</u>
Capital assets being depreciated:					
Land improvements					
Airfield	8,747,374	-	-	1,084,343	9,831,717
Industrial park	3,156,117	285,529	-	-	3,441,646
Buildings and improvements					
Airfield	1,591,258	-	-	-	1,591,258
Industrial park	2,060	-	-	-	2,060
Furniture, machinery, and equipment	<u>273,184</u>	<u>227,389</u>	<u>-</u>	<u>-</u>	<u>500,573</u>
Total capital assets being depreciated	<u>13,769,993</u>	<u>512,918</u>	<u>-</u>	<u>1,084,343</u>	<u>15,367,254</u>
Less accumulated depreciation for:					
Land improvements					
Airfield	(2,525,915)	(354,332)	-	-	(2,880,247)
Industrial park	(1,500,066)	(150,047)	-	-	(1,650,113)
Buildings and improvements					
Airfield	(475,124)	(53,243)	-	-	(528,367)
Industrial park	(206)	(69)	-	-	(275)
Furniture, machinery and equipment	<u>(146,445)</u>	<u>(21,535)</u>	<u>-</u>	<u>-</u>	<u>(167,980)</u>
Total accumulated depreciation	<u>(4,647,756)</u>	<u>(579,226)</u>	<u>-</u>	<u>-</u>	<u>(5,226,982)</u>
Total capital assets, being depreciated, net	<u>9,122,237</u>	<u>(66,308)</u>	<u>-</u>	<u>1,084,343</u>	<u>10,140,272</u>
Business-type activities capital assets, net	<u>\$ 9,179,835</u>	<u>\$ 960,437</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,140,272</u>

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2005

Depreciation expense was charged to functions/programs as follows:

Business-type activities:	
Airfield	\$ 429,110
Industrial Park	<u>150,116</u>
Total depreciation expense - business-type activities	<u>\$ 579,226</u>

3. Intangible assets

The following is a summary of intangible assets recorded in the Enterprise Fund. These intangibles consist of site plans and a promotional video and are being amortized over periods from 7 to 15 years on a straight-line basis.

Intangible assets	\$ 180,557
Less: accumulated amortization	<u>(64,390)</u>
Net intangible assets	<u>\$ 116,167</u>

B. Line of credit payable

The Authority has a line of credit with a local financial institution to provide short-term cash flow up to \$150,000. There was no balance outstanding at June 30, 2005.

C. Notes payable

Notes payable at June 30, 2005, consisted of the following.

Description	Interest Rates(%)	Maturity	Outstanding Principal June 30, 2005
Mohave State bank loan	4.90	06/15/15	\$ 359,618
Mission bank loan	3.85	07/01/08	<u>350,454</u>
Total notes payable			<u>\$ 710,072</u>

Changes in long-term obligations for the year ended June 30, 2005 are as follows:

	July 1, 2004	Increases	Decreases	June 30, 2005	Due within One Year
Business-type Activities:					
Notes payable	\$ <u>749,122</u>	\$ <u>-</u>	\$ <u>(39,050)</u>	\$ <u>710,072</u>	\$ <u>52,983</u>

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2005

Debt service requirements on long-term debt at June 30, 2005 are as follows:

Year Ending June 30,	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 52,983	\$ 32,707
2007	55,405	30,285
2008	57,939	27,751
2009	318,000	14,774
2010	38,449	11,963
2011-15	<u>187,296</u>	<u>28,904</u>
	<u>\$ 710,072</u>	<u>\$ 146,384</u>

NOTE 4 - OTHER INFORMATION

A. Risk management

The Kingman Airport Authority, Inc., is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority is insured by Arizona State Workers Compensation Insurance Fund for potential job-related accidents.

B. Lease revenues

The Authority subleases, under operating leases, certain property and improvements.

The operating leases have varying terms ranging from a month-to-month basis to twenty-five years. Most leases extending over a one-year period contain a rent adjustment on the consumer price index. Some leases contain an option to renew for a similar term.

Minimum future rentals to be received on non-cancelable leases as of June 30, 2005, for each of the next five years and in the aggregate are:

Year ended June 30,	
2006	\$ 20,100
2007	20,100
2008	20,100
2009	20,100
2010	20,100
Thereafter	<u>63,483</u>
Total minimum future rentals	<u>\$ 163,983</u>

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2005

C. Budgetary basis of accounting

The adopted budget of the Enterprise Fund was prepared on the modified accrual basis. Consequently, the following adjustments are necessary to reconcile budgetary to GAAP basis.

	<u>Enterprise Fund</u>	
	<u>Total Operating Revenues</u>	<u>Total Operating Expenses</u>
Statement of Revenues, Expenditures and Changes in Fund Net Assets	\$ 587,665	\$ 1,427,300
Nonoperating revenues and expenses	194,958	35,536
Adjustments to present data on the budgetary basis		
additions	1,535,703	1,648,201
subtractions	<u>-</u>	<u>(583,342)</u>
Statement of Revenues, and Expenses - Budget and Actual - (Budgetary Basis)	\$ <u>2,318,326</u>	\$ <u>2,527,695</u>

D. Retirement plans

Defined contribution pension plan

The Authority's 401(a) Retirement Plan is a defined contribution pension plan established by the Authority and administered by Nationwide Life Insurance to provide benefits at retirement to all full-time employees of the Authority. At June 30, 2005, there were six plan members. Plan members are required to contribute 6% of covered salary. The Authority is also required to contribute 6% of covered salary. Plan provisions and contribution requirements are established and may be amended by the Authority's governing board. Covered payroll for the year totalled \$225,200. Employee contributions totalled \$13,512 and employer contributions totalled \$13,512 for the year.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

E. FAA commitment for future improvements

The Authority is obligated by the Federal Aviation Administration (FAA) to invest an amount equal to the net proceeds of land sales at the Kingman Airport Industrial Park in improvements to and operations of the Kingman Airfield within five years from the date of the sale. The amount obligated to be spent for airfield improvements and operations at June 30, 2005, is \$-0-. The Authority complied with all regulations regarding its sale of land at the Kingman Airfield and Industrial Park during the 2004-05 fiscal year.

Changes in the commitment for future improvements during the year ended June 30, 2005, were as follows:

Balance, beginning of year	\$ -
Add: land sales during year	-
Deduct: expenses at Kingman Airfield	-
	<u>\$ -</u>

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Supplementary Schedule

KINGMAN AIRPORT AUTHORITY, INC.
ENTERPRISE FUNDS
SCHEDULE OF NET INCOME
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Airfield</u>	<u>Industrial Park</u>	<u>Totals</u>
Operating revenues			
Leases	\$ 461,540	\$ 85,682	\$ 547,222
Intergovernmental	<u>40,443</u>	<u>-</u>	<u>40,443</u>
Total operating revenues	<u>501,983</u>	<u>85,682</u>	<u>587,665</u>
Operating expenses			
Personnel	108,943	165,459	274,402
Payroll taxes and benefits	42,025	50,057	92,082
Office expense	8,864	8,993	17,857
Professional services	21,044	15,664	36,708
Maintenance and repairs	14,937	7,987	22,924
Motor pool	9,670	9,346	19,016
Operational expense	263,621	117,348	380,969
Depreciation	429,110	150,116	579,226
Amortization	<u>4,116</u>	<u>-</u>	<u>4,116</u>
Total operating expenses	<u>902,330</u>	<u>524,970</u>	<u>1,427,300</u>
Operating loss	<u>(400,347)</u>	<u>(439,288)</u>	<u>(839,635)</u>
Nonoperating revenues (expenses)			
Contributions and donations	-	93,918	93,918
Interest revenue	556	6,711	7,267
Application fees	19,000	4,000	23,000
Miscellaneous revenues	24,302	7,081	31,383
Interest expense	(35,261)	(275)	(35,536)
Land sales	<u>-</u>	<u>39,390</u>	<u>39,390</u>
Total nonoperating revenues (expenses)	<u>8,597</u>	<u>150,825</u>	<u>159,422</u>
Net Loss	<u>\$ (391,750)</u>	<u>\$ (288,463)</u>	<u>\$ (680,213)</u>

SINGLE AUDIT ACT REPORTS SECTION

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors of the
Kingman Airport Authority, Inc.

We have audited the financial statements of Kingman Airport Authority, Inc. as of and for the year ended June 30, 2005, and have issued our report thereon dated November 17, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Kingman Airport Authority, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In planning and performing our audit, we considered Kingman Airport Authority, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cronstrom, Trbovich & Osuch, P.C.

Cronstrom, Trbovich & Osuch, P.C.

November 17, 2005



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors of the
Kingman Airport Authority, Inc.

We have audited the compliance of the Kingman Airport Authority, Inc. with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Kingman Airport Authority, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kingman Airport Authority, Inc.'s management. Our responsibility is to express an opinion on Kingman Airport Authority, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Kingman Airport Authority, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kingman Airport Authority, Inc.'s compliance with those requirements.

In our opinion, the Kingman Airport Authority, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

The management of the Kingman Airport Authority, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Kingman Airport Authority, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We have audited the basic financial statements of the Kingman Airport Authority, Inc. as of and for the year ended June 30, 2005, and have issued our report thereon dated November 17, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cronstrom, Trbovich & Osuch, P.C.

Cronstrom, Trbovich & Osuch, P.C.

November 17, 2005

KINGMAN AIRPORT AUTHORITY, INC.
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:
Internal control over financial reporting:

Unqualified

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified not
 considered to be material weakness? _____ yes X none reported
- Noncompliance material to financial
statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified not
 considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with Circular A-
133, Section .510(a)?

_____ yes X no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

20.106

Airport Improvement Program

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ yes X no

KINGMAN AIRPORT AUTHORITY, INC.
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no audit findings in the prior year.

KINGMAN AIRPORT AUTHORITY, INC.
SCHEDULE OF EXPENSES OF FEDERAL AWARDS
 FISCAL YEAR ENDED JUNE 30, 2005

<u>Grantor Agency</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenses</u>
U.S. Department of Transportation			
Airport Improvement Program	20.106	3-04-0021-11	\$ 439,955
Airport Improvement Program	20.106	3-04-0021-12	24,067
Airport Improvement Program	20.106	3-04-0021-13	263,276
Airport Improvement Program	20.106	3-04-0021-014-2004	<u>570,188</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 \$ <u>1,297,486</u>

Note: Schedule is prepared on the accrual basis of accounting.